DIRECTIONS FOR A NATIONAL
AGRICULTURAL DEVELOPMENT STRATEGY
FOR CANADA

Developing a National Emergency Assistance Program

A Saskatchewan Position Paper
Prepared for the First Ministers' Conference
on the Economy

November 28-29, 1985

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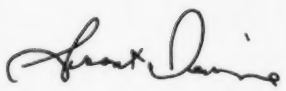
PREFACE

Today, Canadian agriculture is facing an economic environment which is fundamentally different than was the case in the past. The changes which have occurred call into question old approaches to national agricultural policy and point to the necessity for review and modification to meet today's needs.

This paper is one of four prepared as background to discussions on agriculture at the **First Ministers' Conference** in November 1985. The papers incorporate the views of many agricultural organizations presented as **briefs to the Government of Saskatchewan** and many of the issues raised at the **Saskatchewan Agriculture Conference** of October, 1985. They address the urgent requirement for a **national disaster program** and the need to review and modify policies, programs and regulations which affect **farm finance, trade and new technology and resource development.** These documents have been prepared to encourage public and farmer participation in discussions on the future of agriculture in Canada.

The Government of Saskatchewan is dedicated to the furtherance of agricultural prosperity. It is hoped that the ideas in these papers will contribute to a federal-provincial agreement on the need and the process to establish a new **National Agricultural Policy for Canada.**



Grant Devine
Premier of Saskatchewan

Regina, Saskatchewan
November, 1985

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EMERGENCY ASSISTANCE PROGRAM FOR CANADIAN AGRICULTURE

I INTRODUCTION

Agricultural producers are vulnerable to a variety of weather-related and other natural disasters, including drought, floods, windstorms, frost, hail, insect infestations and crop diseases. Natural disasters can create serious problems for Canadian agriculture, because they frequently result in large uninsured losses for producers that threaten the economic viability of farm units and the security of the farm economy.

Currently, many Prairie farmers are experiencing large, uninsured losses from diminished crop yields and livestock production due to widespread drought in 1984 and 1985. Although most producers are currently insured against losses from natural disasters, some crops are not covered by insurance mechanisms and other crops are not adequately insured for multi-year natural disasters.

Federal and provincial governments commonly provide financial assistance to enable producers to withstand the effects of natural disasters by maintaining stability in farm incomes. Financial assistance is provided through established programs, such as federal/provincial Crop Insurance and the Western Grain Stabilization Program, and ad hoc programs that supplement payouts under established programs. Government financial assistance programs generally provide adequate protection to producers in the event of a single-year disaster, but are not designed to provide protection during a multi-year disaster.

> "Disaster relief is always a very sensitive and controversial issue for governments. It is also at best a very short term remedy, usually for symptoms of the real problem." (Saskatchewan Canola Growers Association brief)

The severity of the drought on the Prairies during the past two years has underscored the need for an emergency assistance mechanism to compensate producers who suffer large uninsured losses due to recurring natural disasters. A long-term emergency assistance mechanism is required to maintain the viability of farm units during a multi-year disaster, to ensure that producers are given an opportunity to continue farming when the disaster has run its course. Producers need a more effective buffer against protracted drops in crop yields and income than existing financial assistance programs can provide.

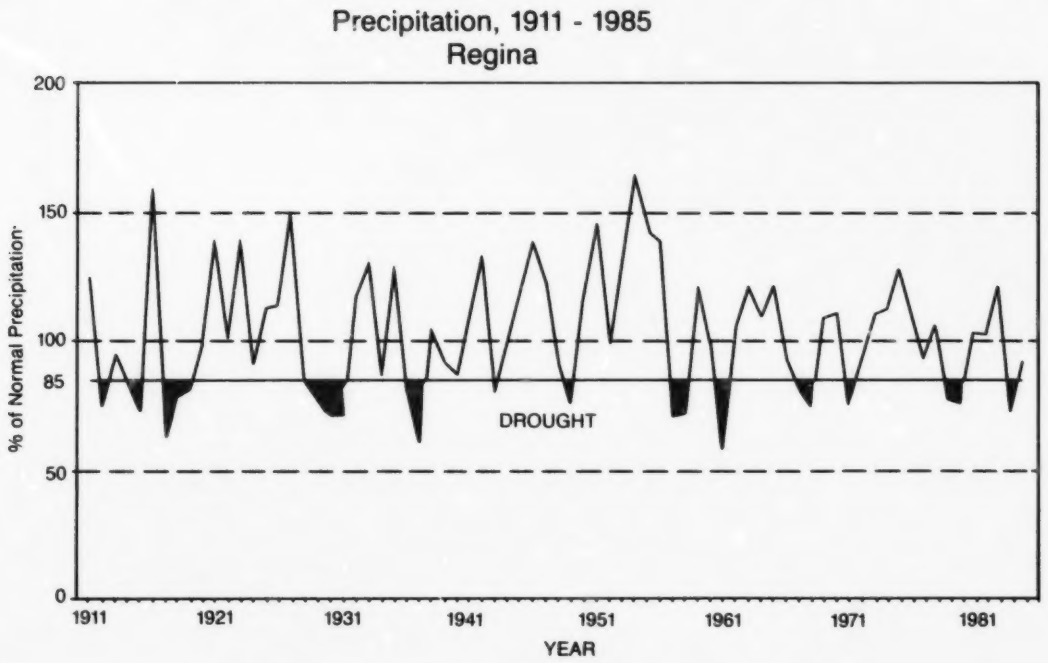
An emergency assistance mechanism should be designed to give protection to agricultural producers in different regions of the country who suffer unanticipated, uninsured losses as a result of single or multi-year disasters. This would provide a buffer against an uncertain and unpredictable environment and mitigate the impact of large uninsured losses in the agricultural sector on the Canadian and provincial economies.

II DEFINING A DISASTER

Natural disasters can take many forms, with wide variations in the impact they have on farm yields and the economy. They occur in all regions of Canada, affecting fruit farmers in British Columbia, grain farmers in the Prairies, tobacco growers in Ontario, and potato farmers in the Maritimes. Natural emergencies are a recurring problem for Canadian agriculture. Droughts, for example, have been a regular feature of Prairie agriculture since the early 1900s (see Figure 1).

> "In fact, it is almost certain that our climate will continue to place severe stress on groups of producers from time to time." (College of Agriculture, University of Saskatchewan)

Figure 1



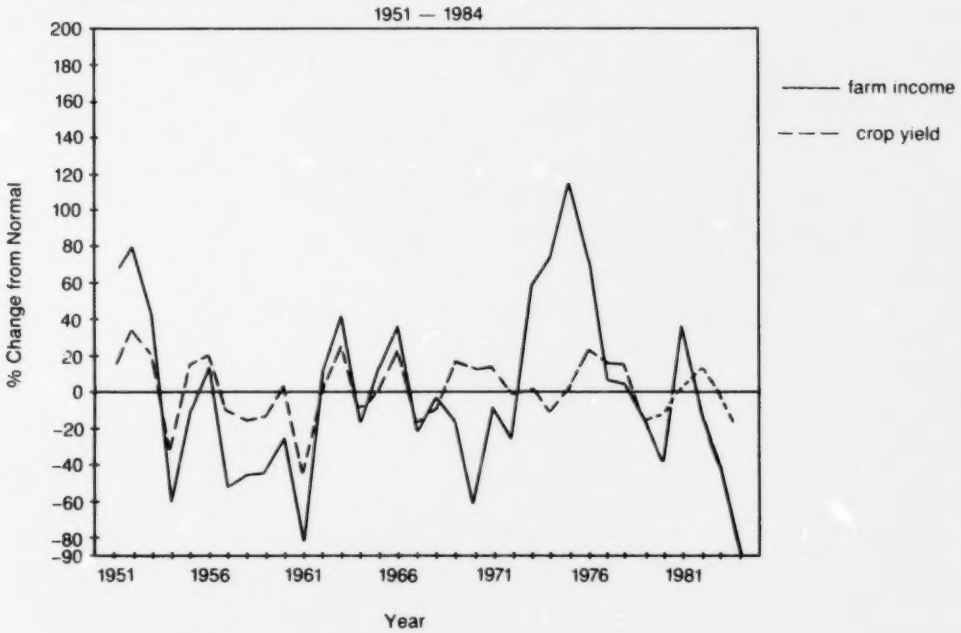
It is often difficult to reach a consensus regarding what constitutes a disaster and what measures are needed to protect those affected. In order to formulate an emergency assistance mechanism, agreement is needed concerning the definition of a natural disaster and how losses will be compensated.

A natural disaster can be defined as any natural event that results in large unanticipated, uninsured losses for agricultural producers. Such losses can be caused by drought, hail, floods, tornadoes, insects, or other natural events that occur on a random basis. An uninsured loss occurs when a producer has less than normal income after receiving payments through available insurance or income stabilization mechanisms. An uninsured loss is any income loss from crop or livestock production below the long term average yield not covered by these mechanisms.

Natural disasters occur in definite geographic areas or regions, and effect more than one producer. Yield levels for different crops and livestock production in the area fall below the level required for production to remain viable. Historically, there has been a strong correlation between crop yields and farm income levels in Saskatchewan (see Figure 2).

Figure 2

Trends In Farm Income and Wheat Yields In Saskatchewan



Impact of Agriculture Disasters

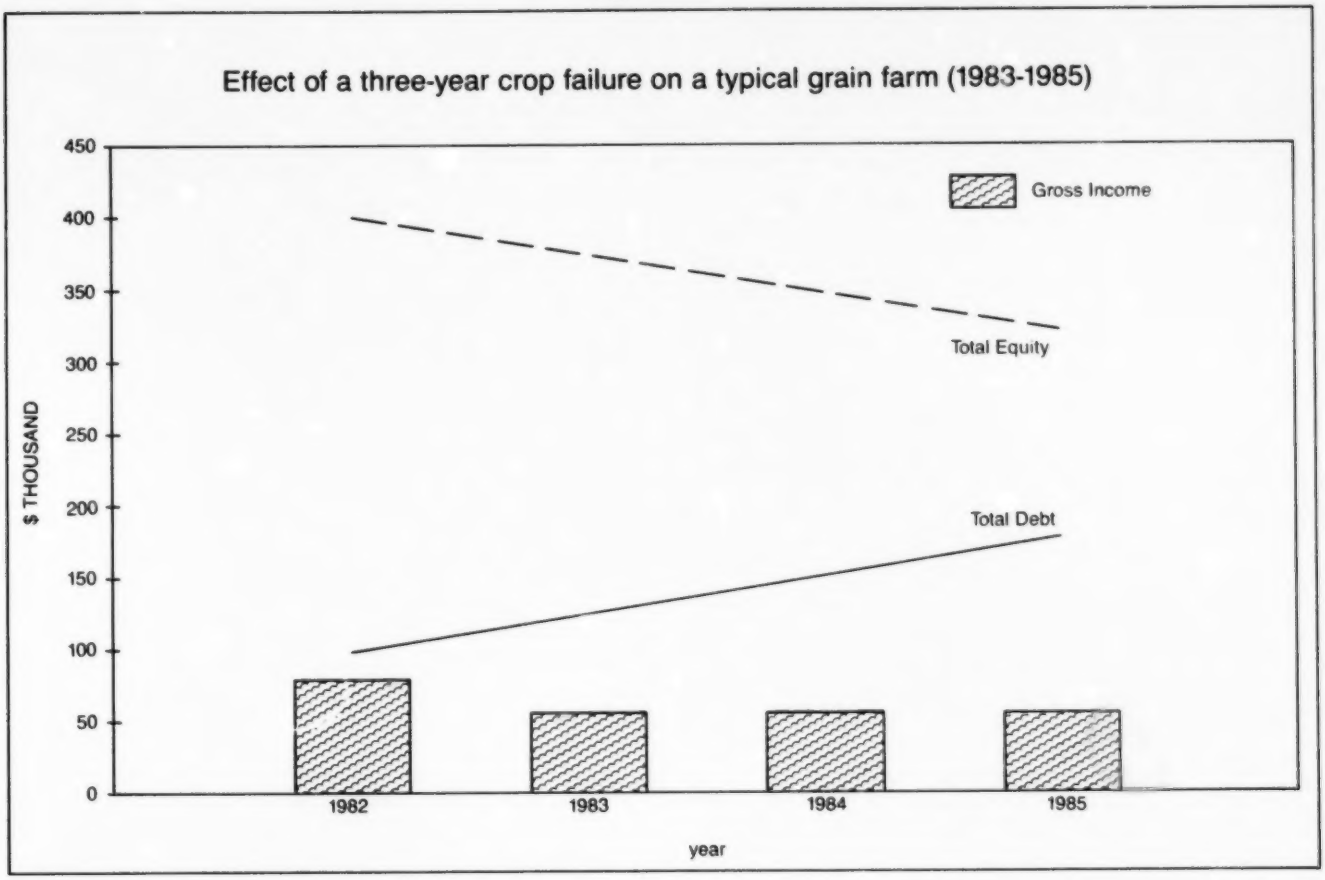
Production failures caused by natural disasters can have a major impact on farm communities, and on the provincial and national economies.

A large drop in crop yields results in lower farm income, which in turn leads to lower retail sales and employment in farm communities. Small businesses in the agricultural service and retail sectors experience severe cash flow problems which may force some to close. For example, many machinery dealerships went out of business and elevator managers were laid off in Saskatchewan during the 1984-85 drought. The impact of the drought on farm communities is well summed up in this comment by a rancher from southwestern Saskatchewan: "There is getting to be quite a bit of depression. People aren't spending, they are really backing off. They're not buying equipment, and they aren't even looking at it." (Regina Leader Post, July 11, 1985)

In the event of recurring production failures due to natural disasters, the problems of farm communities intensify as the financial position of producers deteriorates. The lack of employment opportunities in the agricultural service and retail sectors can lead to a reduction in the population of farm communities. The smaller population may be insufficient to maintain services such as schools and recreation facilities. The consolidation of services in larger centres contributes further to the decline in population of farm communities, creating a vicious cycle of economic decline and stagnation for some communities that is difficult to reverse, even when conditions return to normal.

The effect of a natural disaster on the individual farm operation can be critical, particularly when the producer faces a recurring production failure. The financial position of most producers would deteriorate significantly in the event of a multi-year disaster, as shown in the following graph illustrating the impact of a prolonged drought on a typical grain farm (see Figure 3).

Figure 3



Farm income could fall by more than $20,000 in the first drought year, and decline by almost $80,000 over the course of a three-year drought, due to the large uninsured losses incurred by the producer. Farm debt would increase as the producer borrowed to cover these losses and pay for living costs. Higher interest costs on this debt would increase debt levels further. Farm equity would fall proportionately as debt increased.

The debt/equity ratio of the farm unit would increase from 20:80 under normal conditions to 25:75 after a one-year drought, and to more than 35:65 should drought conditions persist over a three-year period (see Annex for more details).

The economic viability of the farm unit would be undermined without an appropriate emergency assistance mechanism to compensate the producer for the loss of income suffered during the disaster. In the absence of a long-term emergency program, the disaster would exacerbate financial problems associated with the cost-price squeeze which now threaten the viability of many Canadian farms.

The impact of a major production failure on the provincial economy can also be severe. A recent PFRA study estimated that more than 20,000 jobs could be lost in Saskatchewan should a drought comparable to that of 1936 reoccur in the province. The 1985 drought, which reduced crop yields in Saskatchewan 15 per cent below normal levels, is expected to reduce retail sales by $60 million and eliminate about 1,000 jobs in the province. This will cut the real growth rate of the Saskatchewan economy by about 4 percentage points in 1985.

The drought will also have a longer-term impact, since producers have lost about $760 million in revenues in 1985. This is in addition to the estimated $925 million loss due to the 1984 drought. Although some of this will be made up by Crop Insurance and Western Grain Stabilization payouts and ad hoc payments, the Saskatchewan and Canadian economies have lost about $1.7 billion in the past two years.

The vulnerability of producers to large uninsured losses in the event of a natural disaster will discourage adoption of more intensive cropping practices, which will lead to diminished production and trade opportunities in the future. Recurring production failures can also cut into the supply of agricultural products available for export, reducing Canada's trade surplus and the market share of these products. More than 4,400 man-years of employment would be lost in Canada with a decline of $100 million in grain exports due to a major production failure.

III GOVERNMENT RESPONSE TO AGRICULTURAL EMERGENCIES

A Current Agriculture Financial Assistance Programs

A number of programs are available to provide producers with financial protection against income losses caused by a natural disaster:

- Crop Insurance for crop losses from different types of natural disasters;
- the Western Grain Stabilization Program, which maintains the cash flow of Western producers in the event of a major production shortfall due to a natural disaster;
- the Disaster Financial Assistance Arrangement Mechanism, which compensates for losses to buildings and machinery due to natural disasters such as tornadoes;
- private insurance for hail and fire loss, and physical losses to farm capital and livestock.

These programs are primarily designed to provide financial assistance to producers who experience insurable losses from diminished crop yields and livestock

production or loss of income due to market factors. They alleviate the economic impacts of some natural disasters, although the level of protection provided during a severe disaster or a multi-year disaster is limited.

To supplement the financial protection provided under established programs, governments often make ad hoc payments to producers. Although these payments address the immediate cash flow needs of producers, they tend to be very expensive and are difficult for producers to incorporate into a business plan.

In order to design an effective long-term emergency assistance mechanism, the degree of protection available to producers under existing financial assistance programs and their limitations in dealing with single and multi-year disasters must be taken into account.

> "If programs such as Crop Insurance and Western Grain Stabilization were operating properly, disaster relief requirements would be very minimal." (Saskatchewan Canola Growers Association Brief)

1) Federal/Provincial Crop Insurance

Crop Insurance is a government insurance mechanism which allows producers to insure crops against yield losses due to adverse weather conditions or other types of natural disasters. The premium costs of the program are shared by the federal government and the producers purchasing the insurance, while the provincial governments administer the programs.

The coverage available for each crop and the types of crops covered vary from province to province. The amount of insurance coverage available is less than the average crop yield. In Saskatchewan, crop coverage varies from 49% to 87.5% of the fifteen-year production average. This diminishes the incentive for a producer to reduce input costs in order to profit from insurance payments. Crop Insurance will, therefore, always have an uninsurable portion of loss to discourage abuse by producers.

In Saskatchewan Crop Insurance does not cover losses on all pasture and forage crops, which reduces its capability to protect all producers from the effects of a single or multi-year disaster.

Crop Insurance does not provide adequate income protection for producers who suffer multi-year crop losses, because the maximum coverage level provided by Crop Insurance is not high enough to keep production viable should two or three consecutive production failures

occur. The Government of Saskatchewan has attempted to redress this situation through ad hoc changes to 1985 Crop Insurance coverage levels. This will generate $55 million in payouts by the provincial government to Saskatchewan producers this year.

In addition, the coverage adjustment mechanism in Crop Insurance reduces coverage for producers who make successive insurance claims, to reduce distortions in farm input usage. However, this results in substantially less protection for good farm managers affected by multi-year natural disasters.

2) Western Grain Stabilization Program

The Western Grain Stabilization Program (WGSA) protects participating Prairie grain farmers against drops in farm income due to a reduction in the value of crop production.

The annual level of WGSA payments is determined using a formula that calculates the value of crops marketed in the Prairie region and subtracts variable grain production costs to derive a net cash flow figure for that year. When the net cash flow of the Prairie region falls below the five-year average, WGSA payments are automatically made to participating farmers to bring their net cash flow up to the five-year average.

The Western Grain Stabilization Program addresses cash flow problems associated with weak grain markets very effectively, but is not designed specifically to protect Prairie farmers from drops in income due to major natural disasters. The program does not respond to local variations in the impact of natural disasters, which results in over-compensation of producers in some areas because of poor production elsewhere in the region.

3) Disaster Financial Assistance Arrangement Mechanism

This federal program provides emergency assistance to producers who have suffered losses to buildings, machinery and other farm capital in a natural disaster. Crop losses which can be partially covered through Crop Insurance are excluded from the Disaster Financial Assistance Arrangement Mechanism. An area has to be declared a disaster area due to an unanticipated natural disaster before producers qualify for assistance under this program.

4) Private Insurance

Private insurance can be purchased to protect farmers from losses due to various natural disasters. Private insurance covers physical losses to farm capital and livestock, as well as losses from hail and fire damage to crop land. Private insurance generally does not provide

coverage for crop losses due to such natural disasters as drought, flood or frost.

5) Canadian Wheat Board Cash Advance Program

The Canadian Wheat Board provides cash advances on unthreshed or stored grain to maintain farmers' cash flow during the year. The size of cash advances in a given year is determined by the market prices of grains and expected quota levels for wheat, oats and barley. Cash advances are repaid by farmers when they deliver grain for sale.

B Ad Hoc Programs

The federal and provincial governments occasionally supplement established disaster programs by making direct payments to producers who have suffered large uninsured losses. For example, $60 million in financial assistance has been provided by the federal and Saskatchewan governments to livestock producers affected by the 1984-1985 drought. Ad hoc programs may not provide timely financial assistance to farmers affected by a natural disaster due to the need to establish an administrative framework for each program. The need to establish boundaries for payouts under ad hoc programs also results in inequitable distribution of emergency assistance, producing winners and losers within the area affected by the disaster. In addition, this type of emergency assistance is difficult for producers to incorporate into a business plan and can involve large expenditures of public funds.

The federal government has implemented a number of ad hoc programs in response to a variety of climatic emergencies, with payments to agricultural producers totalling more than $350 million ($1985) since 1960 (see Table 1).

Type of Disaster	Number of Programs	Total Cost ($1985)
Drought	30	$255 million
Flood & Excess Moisture	25	$74 million
Other	9	$24 million
TOTAL	64	$353 million

TABLE 1

FEDERAL AD HOC DISASTER PAYMENTS

YEAR	TYPE OF NATURAL DISASTER	TARGET PROVINCES	EXPENDITURES (CURRENT $)
1959-60	drought	Sask/Man/Alta	$58,355
	drought	Sask/Man	$46,976
1960-61	early & heavy snowfall	Sask/Man/Alta	$1,437,944
	early & heavy snowfall	Sask/Man/Alta	$258,617
	flooding	New Brunswick	$50,000
1961-62	drought	Sask/Man/Alta	$186,438
	drought	Sask/Man/Alta	$1,091,604
	drought	Sask/Man/Alta	$10,928
1962-63	early & heavy snowfall	PEI/NS	$121,968
	drought	Sask/Man	$16,620
	drought	Sask/Man/Alta	$707,599
	drought	Sask/Man/Alta	$117,701
1963-64	drought	Sask/Man/Alta	$42,000
	drought	Sask/Man/Alta	$50,000
	early & heavy snowfall	NS	$71,761
	Mackenzie River flooding	NW Territories	$1,000,000
1964-65	drought	Sask/BC/Man	$101,258
	drought	Ont/Que	$860,335
1965-66	frost	———	$2,436,000
	drought	Ont/Que/NB	$14,525,247
1966-67	drought	Que	$120,000
	frost & drought	PEI	$74,192
1967-68	drought	Sask/Alta	$149,419
1972-73	rain damage	Ont/Que	$11,538,000
	adverse weather	Alta/BC	$1,292,000
1973-74	rain damage	Ont/Que	$2,977,000
	adverse weather	Alta/BC	$105,000
	frost & drought	BC	$300,000
	drought	Alta	$39,000
	excessive moisture	Sask/Que	$699,000
1974-75	drought	Alta	$454,000
	excessive moisture	Que	$111,924
	excessive moisture	Sask	$683,083
	frost & drought	BC	$206,000
	excessive moisture	Ont/Man	$198,205
1975-76	flooding	Man	$1,398,212
	excessive moisture	Man	$3,487
1976-77	drought	Ont	$60,000
	rain damage	Ont	$41,976
	flooding	Man	$2,539,281
1977-78	drought	Ont	$240,000
	drought	Sask/Alta	$113,721
1978-79	rain damage	Ont	$12,227
	adverse weather	BC	$17,345
	drought	Sask	$189,048
	drought	Alta	$402,376
	storm damage	Ont	$28,110
1979-80	storm damage	Ont	$19,041
	adverse weather	Ont	$52,912
1980-81	storm damage	Ont	$21,188
	drought	Sask/Man/Ont	$2,409,966
	drought	Sask/Man/Alta/Ont	$3,571,000
	drought	Sask/Man/Alta/Ont	$45,449,000
1984-85	excessive moisture	Sask	$7,436,500
	flooding	Man	$590,790
	drought	Sask/Man/Alta	$29,965,000
1985-86*	drought	Sask/Man/Alta/BC	$48,250,000
	drought	Sask	$3,500,000
	drought,frost & flooding	Que	$27,000,000
	storm damage	Ont	$5,000,000
	frost	Ont/Que/NB/NS	$4,700,000

* Announced federal expenditures through October, 1985.

Federal ad hoc programs have provided short term relief to agricultural producers when other financial assistance available to them was inadequate to meet their immediate cash flow needs. However, the high cost and short time frame of ad hoc programs lend support to the view that:

> "Governments have failed to establish sound agricultural policies that would ensure the continuation of family farming along with being able to employ the very best methods of modern farming." (Southern Saskatchewan Drought Committee brief)

C Options For a New Long-Term Agriculture Emergency Assistance Program

A new long-term emergency assistance mechanism is needed to provide producers with better protection against the financial impact of large uninsured losses from production failures.

An emergency assistance mechanism to protect producers in the event of a natural disaster should satisfy the following criteria:

1) Simplicity
The mechanism should be simple for producers to understand and easy for governments and financial institutions to administer.

2) Complement Existing Programs
The mechanism should complement existing farm insurance and stabilization programs, either through modification of these programs to provide more assistance to producers in the event of a single or multi-year disaster or through a new program integrated with existing programs.

3) Target Government Contributions to Affected Producers
Farmers affected by natural disasters should be targetted to receive payouts under the mechanism. Payouts should be proportional to the uninsured losses incurred as a result of the disaster to minimize income distortions. Distortions in farm input usage should not be caused by the mechanism.

4) Local Disaster Protection
The mechanism should be sensitive to local variations in the impact of natural disasters, to ensure that farmers in the areas affected by a disaster are eligible for emergency assistance.

5) Automatic Payout with Producer Participation
The mechanism should trigger automatically when crop yields or farm incomes fall below a certain level due to a natural disaster. Whenever possible, producers should participate in the funding of the emergency assistanc mechanism through appropriate financial contributions.

6) Timeliness
Payouts under the mechanism must be timely to meet the immediate cash flow needs of producers suffering uninsured losses.

The design of an emergency assistance mechanism should reflect the fact that:

> "There are no quick-fix solutions to farm problems. Much thought, innovative ideas, and courage on the part of policy makers is necessary." (Saskatchewan Association of Rural Municipalities)

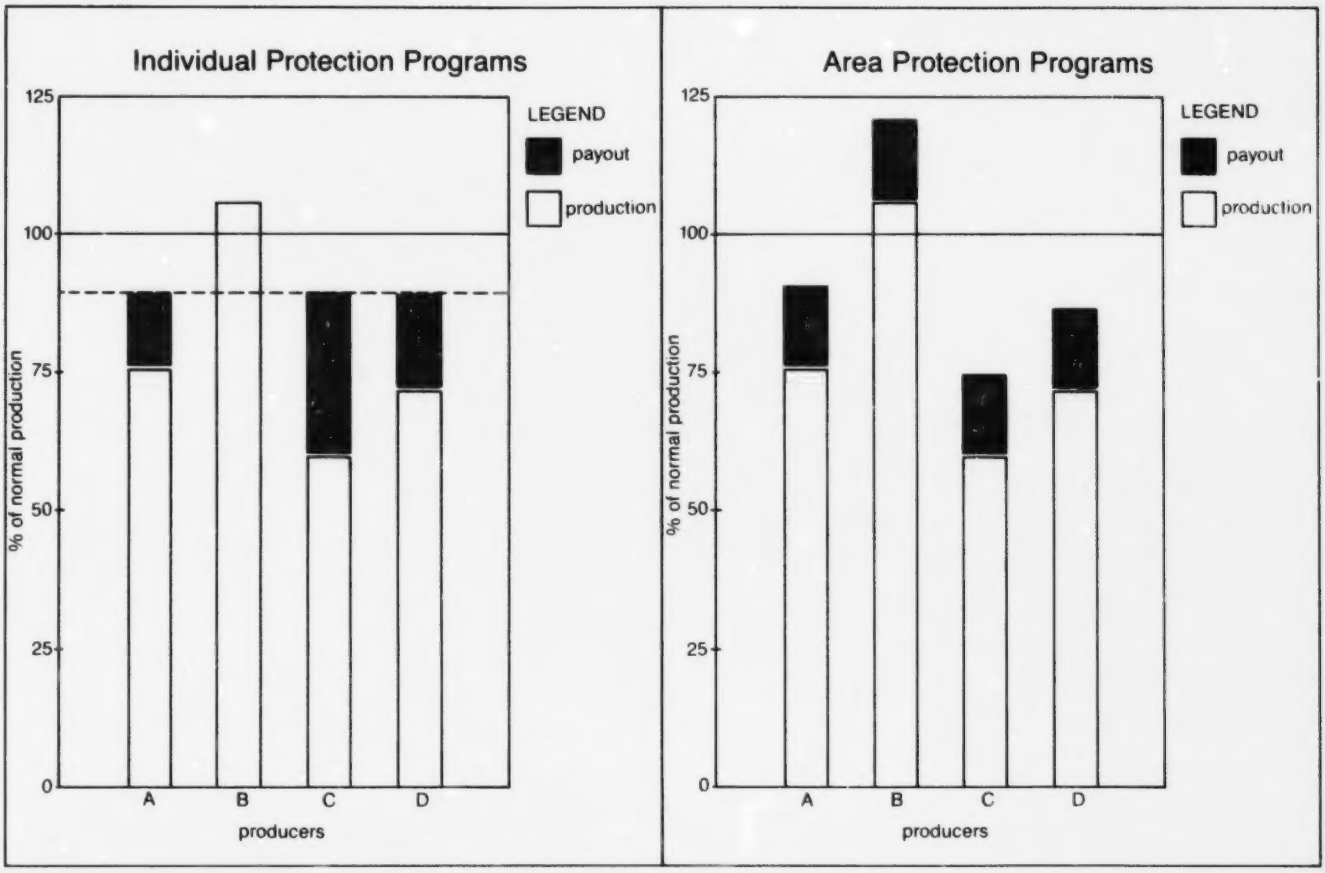
An emergency assistance mechanism can be structured to provide either individual protection or localized area protection. Either approach could be used, although both have the shortcomings inherent in any disaster protection program.

Payments based on individual loss situations can distort farm input usage, particularly when payouts cover nearly all of the uninsured losses of individual producers. However, individual protection programs are not as likely to result in income distortions as programs based on area protection.

Payments based on area protection, on the other hand, do not distort farm input usage because individual actions will have no impact on the payout level. But they do result in income distortions since producers in the area who have not suffered a loss receive payouts (see Figure 4).

The selection of a long term emergency assistance mechanism must take the strengths and weaknesses of the two approaches into account in order to provide cost-effective and equitable relief for farmers affected by a natural disaster.

Figure 4



Options for Individual Protection

1. Modified Crop Insurance Program

Crop Insurance could be amended to provide greater coverage in the event of multi-year natural disasters:

- Extend Crop Insurance coverage to all crops grown in Canada, including pasture and forage crops. This would provide protection to livestock producers;
- Have producers pay an additional premium which will insure two or three-year average production to up to 90 percent of the fifteen-year average yield;
- Have premium levels and coverage adjustment based on a producer's yield relative to his immediate neighbor's.

The major advantage of this approach is that it would provide better protection against multi-year disasters than existing Crop Insurance programs. The cost of providing additional protection will be relatively low, because sustained below-average yields rarely occur.

One of the shortcomings of this option is its insensitivity to real grain prices. It may over-compensate producers in periods of high prices, and provide inadequate income protection in periods of low prices.

2. Disaster Loan Program

Low interest or interest-free loans could be provided to producers in the event of a single or multi-year natural disaster. These loans could be repaid when production returned to normal, or forgiven should production and farm income remain below normal levels. The program could be administered by financial institutions or through the Canadian Wheat Board's Cash Advance Program.

The major advantage of this program is that it would address the immediate cash flow needs of producers at a relatively low cost to taxpayers, and would not produce income distortions. However, the program could result in distortions in farm input usage.

A disaster loan program in the United States provides emergency assistance to American producers, and is widely attributed with maintaining the viability of many farm units during recent agricultural emergencies in that country.

Localized Area Protection

1. Local Area Income Stabilization - Modified Western Grain Stabilization Program

The Western Grain Stabilization Program could be modified to have payout and premium levels calculated on a Crop District basis. The modified WGSA Program could maintain the Crop District's income level at 100 percent of the five-year average, with Crop Insurance payouts included. The Western Grain Stabilization Program could also be expanded to cover field crops in all areas of the country.

The major advantages of this approach would be a reduction in income distortions to below the levels that occur under the existing Western Grain Stabilization Program, and targetting of payouts to producers in Crop Districts where income falls below the five-year Crop District average. It would not lead to distortions in farm input usage or favour production of a specific crop.

2. A Multi-year Disaster Protection Fund

A Disaster Protection Fund could provide automatic payouts to producers when crop yields in an area fall below the long-term average yield. The program could pay up to $20 per acre when the Rural Municipality's three-year average yield falls below 90 percent of the fifteen-year average yield. It could be administered through federal/provincial Crop Insurance programs.

This program would protect most farmers in a Rural Municipality from a decline in yields due to a natural disaster. There would be no distortion in farm input usage under this mechanism, but some producers could be over-compensated.

IV COMPARISON OF THE FOUR POTENTIAL LONG-TERM EMERGENCY ASSISTANCE MECHANISMS

The four options would all serve to stabilize farm incomes in the event of single or multi-year disasters and provide a buffer for producers during the transition period involved in recovering from a natural disaster. They could all be national in scope, to protect producers in different regions of the country during an agricultural emergency. However, significant differences in program costs and uninsured losses to producers would be involved in providing an equivalent level of protection under the four options.

For the purposes of costing disaster assistance programs, it is necessary to establish a benchmark yield level that will be maintained by the emergency mechanism in the event of a production failure due to a natural disaster. Disaster programs can then be compared in terms of the costs involved in providing protection to farmers whose crop yields fall below this level during a single or multi-year natural disaster. Although uninsured losses will not be eliminated by an emergency mechanism, they will be reduced to a level that will allow farm units within the area affected by the disaster to remain viable until conditions return to normal.

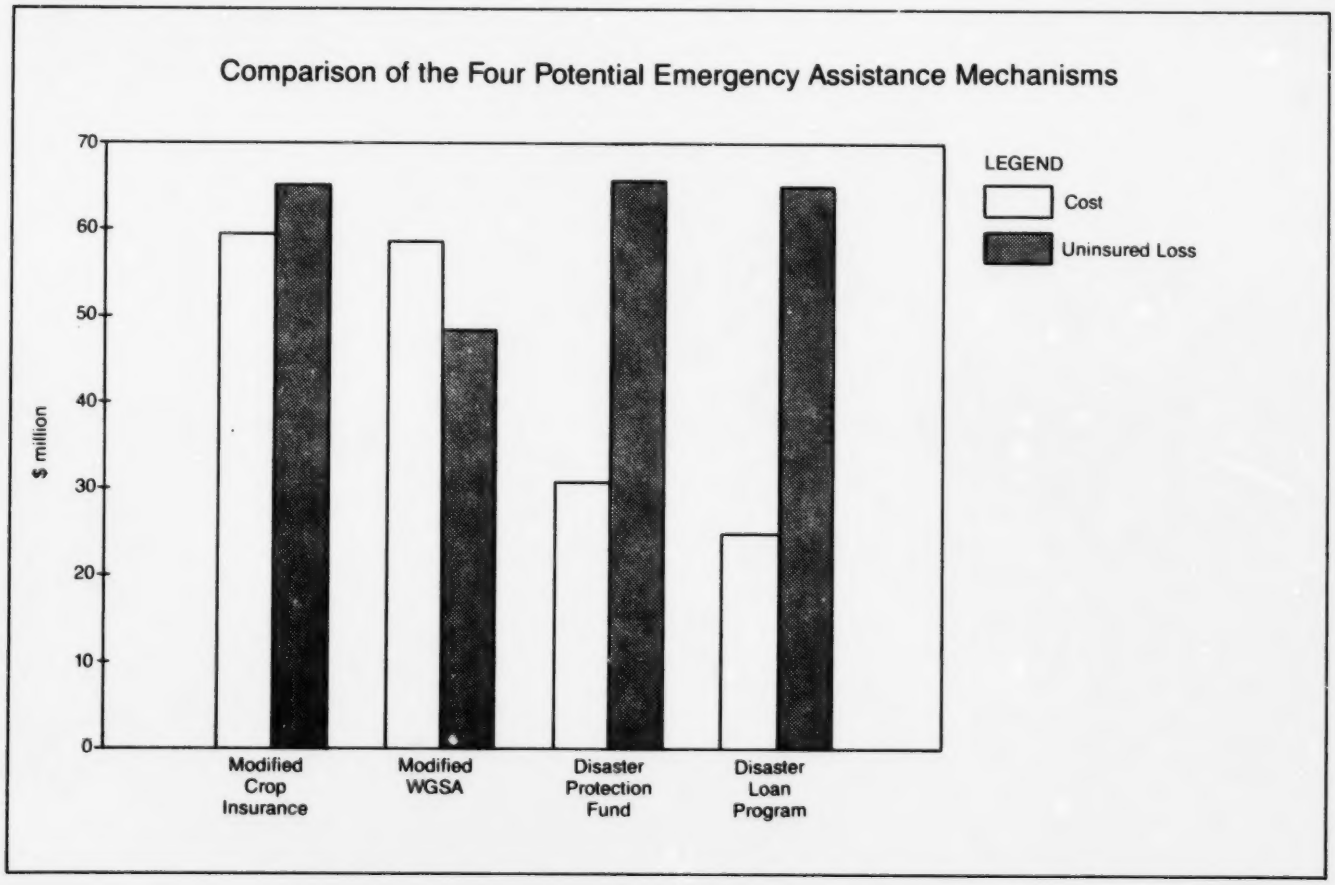
The total annual costs and uninsured losses to producers under the four mechanisms can be determined by calculating the cost of stabilizing crop yields close to long-term average levels.

Saskatchewan crop yield histories were used to derive average annual fluctuations in crop yields. The amount of stabilization required to maintain crop yields at close to normal levels was multiplied by the current provincial value of production for all crops, to determine the expected annual cost of each emergency mechanism.

Uninsured losses associated with each mechanism were calculated by determining what loss below 90 per cent of normal yields would not be compensated under the mechanism. This would capture significant fluctuations in yields while excluding small ones.

The estimated annual cost and uninsured losses to producers for the four emergency assistance mechanisms are shown in Figure 5.

Figure 5



Proposed changes in federal/provincial Crop Insurance programs and the Western Grain Stabilization Program to provide increased protection to producers in the event of single or multi-year disasters would be more costly than establishing new programs such as the Disaster Protection Fund and the Disaster Loan Program, because payouts would more closely maintain the average income of affected producers. The cost of the Modified Western Grain Stabilization Program would be the same as that of the current program, assuming that participation levels remain unchanged. The costs incurred by the provincial and federal governments in providing emergency financial assistance could be partially or wholly recovered through producer contributions or, in the case of the Disaster Loan Program, through charging nominal interest rates on loans.

The level of uninsured losses suffered by producers during a disaster would be reduced by all four mechanisms. Uninsured losses would be essentially the same under the Modified Crop Insurance Program and the Disaster Loan and Disaster Protection Fund mechanisms.

Uninsured losses under the Modified Western Grain Stabilization Program would be less than under the other three mechanisms, due to the improved income protection provided by the program.

The economic benefits associated with increased protection levels and reductions in uninsured losses for producers would be offset to a certain extent by income distortions in the case of area protection programs such as the Modified WGSA and the Disaster Protection Fund, and distortions in farm input usage in the case of individual protection mechanisms such as the Modified Crop Insurance Program and the Disaster Loan Program. These shortcomings inherent in any disaster program should be considered in selecting a long-term emergency assistance mechanism.

V CONCLUSIONS

An improved long-term emergency assistance mechanism is needed to maintain the viability of Canadian farms during major production failures caused by natural disasters. Existing stabilization mechanisms and ad hoc programs have been unable to deal effectively with recurring natural disasters.

The four potential emergency assistance mechanisms would provide increased protection for producers in the event of single or multi-year natural disasters and reduce uninsured losses from the levels under existing programs. However, any

disaster program would create either income distortions or distortions in farm input usage that would reduce its overall effectiveness. The four mechanisms could be applied to agricultural emergencies in different regions of the country.

A direct comparison of the costs of each of these options is difficult because coverage levels and other program details would have to be established jointly by the federal and provincial governments in consultation with farm organizations. In addition, it is difficult to compare income stabilization provided under the Modified Western Grain Stabilization Program with yield stabilization provided by the other three options due to the differing nature of protection provided in each case.

SASKATCHEWAN RECOMMENDATIONS FOR ACTION ON EMERGENCY

The Government of Saskatchewan recommends that a new emergency assistance mechanism be jointly developed by the federal and provincial governments in conjunction with farm organizations by April, 1986, to provide an effective buffer for agricultural producers against recurring natural disasters.

ANNEX

Effect of a Multi-Year Crop Failure on a Typical Grain Farm (1983-1985)

	1982	1983	1984	1985
Gross Income	$81,000	$57,000	$57,000	$57,000
Crop Expense	50,000	50,000	50,000	50,000
Interest Expense	10,000	10,000	12,400	15,040
Net Income	21,000	-3,000	-5,400	-8,040
Living Expense	21,000	21,000	21,000	21,000
Total gain (loss)	0	-24,000	-26,400	-29,040
Total debt	100,000	124,000	150,400	179,440
Farm Value	500,000	500,000	500,000	500,000
Total Equity	400,000	376,000	349,600	320,560
% Equity	80%	75%	70%	64%